

Minnesota

Department of Finance

January 1999

State Revenues Up During November and December

Net general fund revenues totaled \$1.963 billion during November and December, \$98 million (5.3 percent) more than forecast. Receipts for the 1999 fiscal year now total \$5.594 billion. The individual income tax, the corporate income tax, and the motor vehicle excise tax all exceeded the forecast, while sales tax receipts were slightly below projections. Other taxes and miscellaneous revenues also exceeded November's projections. Through the first half of the 1999 fiscal year state revenues excluding those resulting from the tobacco settlement were up 6.2 percent from last year's levels.

Summary of Tax Receipts: November - December 1998

	<u>Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	-----Dollars in Millions-----			

Individual	889.2	912.7	23.5	2.6
Sales	534.7	520.2	(14.5)	(2.7)
Corporate	110.8	166.6	55.8	50.4
Motor Vehicle	63.9	71.5	7.6	11.9
Other	<u>266.6</u>	<u>292.2</u>	<u>25.6</u>	9.6
TOTAL	1,865.2	1,963.2	98.0	5.3

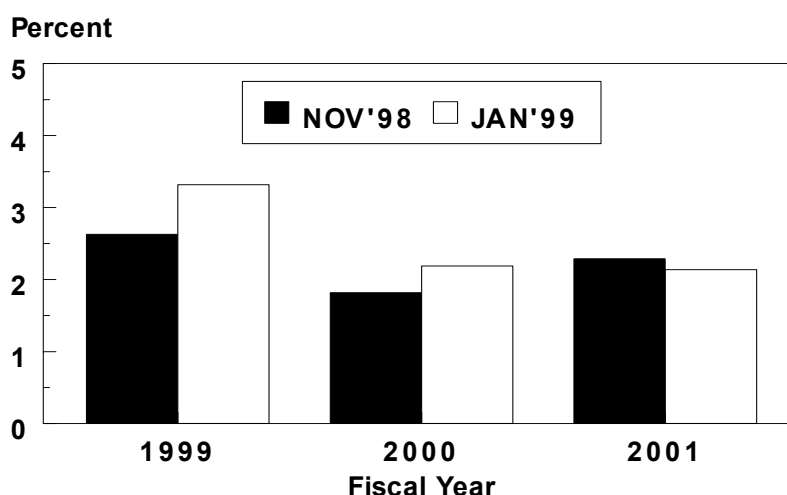
Revenue variances in the second quarter of the fiscal year must always be viewed with caution since they may be caused by differences in the timing of receipts or the processing of refunds, not changes in the underlying economy. More than half of this quarter's variance came from items where timing issues may be important. The December portion of fourth quarter estimated individual income tax payments was \$25 million more than forecast and corporate income tax refunds were \$25 million less than forecast. While those variances could increase or decrease significantly by late January when all timely fourth quarter estimated tax payments have been processed and all timely calendar year 1997 corporate refunds have been paid, the large percentage variance in corporate refunds is likely to shrink. In addition, reported sales tax revenues do not reflect purchases made in the crucial December portion of the Christmas shopping season. Those revenues will be remitted to the state by retailers during January. More complete data on all revenue sources will be reported in the February revenue forecast and incorporated in those revenue estimates.

Global Economy Stabilizes; U.S. Outlook for 1999 Improves

The U.S. economy rallied during November and December, shrugging off many of the nagging problems hounding it during late summer and early fall. Two interest rate cuts from the Federal Reserve in October and a third in November were sufficient to re-assure financial markets that monetary policy would not be put on hold if the economy began to falter. U.S. consumers are now thought to be likely to keep spending at the levels needed to offset a further slowing in U.S. exports.

Even though there is little reason to expect Asia or Latin America to rebound soon, the strong economic reports in November and December have led many economists to put aside their earlier forecasts calling for slow growth and maybe even a recession in early 1999. Now the consensus outlook for 1999 is for growth at a more normal rate.

Stronger Real GDP Growth Now Forecast for F.Y. 1999, 2000



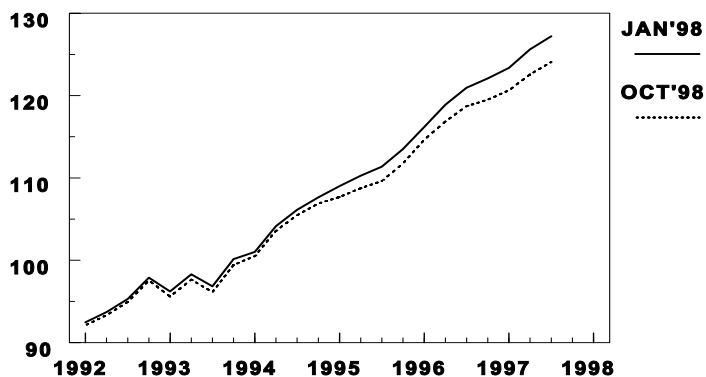
Data Resources Inc., (DRI), Minnesota's national macroeconomic advisor is among the forecasters who have recently made major changes in their outlook for 1999. DRI's November Control called for F.Y. 1999 real GDP growth to be at a rate of 2.7 percent, and they set the odds of a recession by the end of 2000 at nearly 50 percent. Now, just two months later, they have raised the expected GDP growth rate for both F.Y. 1999 and F.Y. 2000, and increased the probability assigned to the Control Scenario to 60 percent. Noting that "the odds of an early recession have receded", DRI's January forecast moves the expected start of any early recession to late 1999 or early 2000 and reduces the probability of a recession in the 2000-01 biennium to 30 percent. DRI now assigns a 10 percent probability to a scenario that contains stronger short term growth, but a recession in 2002.

DRI's January Control forecast depends heavily on strong growth in consumer spending through 1999. Little growth is expected in business investment, even though interest rates are currently low.

Exports will continue to be under pressure, and imports are anticipated to continue to grow during 1999. If households were to pause in their spending and begin saving as they did in the early 1990's, the resulting inventory build-ups could quickly trigger a slowdown similar to those forecast by many as recently as early December. DRI notes "The United States is walking a tightrope ..., but so far, shows no signs of falling."

Minnesota Personal Income Revised Down by U.S. Department of Commerce

Minnesota personal income for 1997 is now estimated at \$123.2 billion by the U.S. Department of Commerce, down \$2.35 billion (1.9 percent) from earlier reports. Estimates of Minnesota personal income in earlier years were also reduced, although generally by smaller percentages. While personal income estimates were reduced for every state, consistent with a national redefinition of dividends, Minnesota income fell more proportionately than the U.S. average. The U.S. wide average reduction for 1997, for example, was 1.2 percent.



Minnesota Personal Income 1992-1997 (\$ Billions)

Revisions to the state data were necessary to make state estimates consistent with the revised estimates of U.S. personal income released as part of the National Income and Product Accounts in July. In that report the definition of dividends was changed to exclude capital gains distributions by mutual funds. Prior to that change personal income had been slightly overstated since those distributions should rightfully have been classified as increases in wealth and not current income. With this change capital gains distributions are treated the same as other capital gains in the national income accounts. The state revisions for recent years also incorporated some new data and some data which had not been previously available.

The principal source of the reduction in Minnesota personal income was, as it was for other states, the changed treatment of capital gains distributions. Property income, including interest, dividends, and rents were reduced by more than the U.S. average. Transfer payments and agricultural proprietors' incomes were also revised down more than the U.S. average for recent years.

The reductions in state personal income change Minnesota's price of government statistics slightly, increasing them from prior levels. Personal income changes affect the absolute value of the measure but they do not change the underlying trend in the relationship between state and local revenues and personal income.

Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	<u>1999 Fiscal Year to Date</u>			<u>November - December 1998</u>		
	<u>Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Forecast</u>	<u>Actual</u>	<u>Variance</u>
<u>Four Major Revenues:</u>	<u>Revenues</u>	<u>Revenues</u>	<u>Act-Fcst</u>	<u>Revenues</u>	<u>Revenues</u>	<u>Act-Fcst</u>
Individual Income Tax						
Withholding	2,214,613	2,215,113	500	798,700	799,200	500
Declarations	318,200	343,566	25,366	100,713	126,079	25,366
Miscellaneous	71,005	77,533	6,528	11,600	18,128	6,528
Gross	2,603,818	2,636,212	32,394	911,013	943,406	32,394
Refunds	58,526	67,441	8,915	21,800	30,715	8,915
Net	2,545,292	2,568,771	23,478	889,213	912,692	23,478
Corporate & Bank Excise						
Declarations	358,669	384,196	25,527	143,900	169,428	25,527
Miscellaneous	39,086	44,887	5,802	11,600	17,402	5,802
Gross	397,754	429,083	31,329	155,500	186,829	31,329
Refunds	64,627	40,121	(24,506)	44,700	20,194	(24,506)
Net	333,128	388,963	55,835	110,800	166,635	55,835
Sales Tax						
Gross	1,684,607	1,663,684	(20,923)	563,800	542,877	(20,923)
Refunds	78,248	71,842	(6,406)	29,105	22,699	(6,406)
Net	1,606,359	1,591,842	(14,517)	534,695	520,178	(14,517)
Motor Vehicle Excise	226,883	234,521	7,638	63,900	71,538	7,638
Other Revenues:						
Inherit/Gift/Estate	25,502	26,282	780	8,172	8,951	780
Liquor/Wine/Beer	25,685	26,636	953	8,886	9,839	953
Cigarette & Tobacco	84,007	84,443	437	29,483	29,920	437
Deed and Mortgage	72,464	78,987	6,523	18,885	25,408	6,523
Insurance Gross Earnings	50,294	50,622	327	47,300	47,627	327
Lawful Gambling	29,113	28,060	(1,053)	11,122	10,069	(1,053)
Health Care Surcharge	56,232	54,784	(1,448)	18,552	17,104	(1,448)
Other Taxes	542	545	3	144	147	3
General Fund RTC Revenues	10,778	11,881	1,102	3,310	4,412	1,102
Income Tax Reciprocity	30,968	39,367	8,399	30,968	39,367	8,399
Investment Income	71,766	80,573	8,807	28,000	36,807	8,807
Tobacco Settlement*	294,748	294,748	0	54,748	54,748	0
Other and Unallocated	39,650	38,585	(1,065)	12,080	11,015	(1,065)
Other Subtotal	791,749	815,515	23,766	271,649	295,414	23,766
Other Refunds	7,612	5,790	(1,822)	5,060	3,238	(1,822)
Other Net	784,137	809,725	25,588	266,589	292,177	25,588
Total Gross	5,704,812	5,779,015	74,203	1,965,863	2,040,066	74,203
Total Refunds	209,013	185,193	(23,819)	100,665	76,846	(23,819)
Total Net	5,495,800	5,593,822	98,022	1,865,197	1,963,220	98,022

* The tobacco settlement forecast was set equal to revenues received through December 31, 1998.